

Idaho Economic Forecast

The following tables and text are taken from the

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Division of Financial Management.

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EXECUTIVE SUMMARY

The outlook for Idaho employment over the next few years has improved since the October 1998 *Idaho Economic Forecast* was published. The biggest change is in 1998. Previously, it was anticipated that nonfarm employment in the Gem State would rise 2.2%. In the current forecast, this same measure is expected to increase 2.9%. All of this improvement reflects the stronger-than-expected job picture in the second and third quarters of 1998. New data show that employment was more than 4,000 higher than previously estimated in each of these quarters. The higher employment numbers in 1998 will not have much of an impact beyond raising the starting point for the current forecast. As was mentioned above, the nonfarm employment growth rate in 1998 has been raised from 2.2% to 2.9%. However, employment expands at roughly the same rate in the remaining years of this forecast as it did in the previous forecast. Specifically, it is forecast to rise 1.6% in 1999, 2.2% in 2000, 2.1% in 2001, and 2.5% in 2002. In the previous forecast it was expected to rise 1.6% in 1999, 2.1% in both 2000 and in 2001, and 2.6% in 2002. Idaho personal income displays a similar pattern. Idaho nominal personal income grows 4.4% in 1999, 5.1% in 2000, 5.2% in 2001, and 5.6% in 2002. This is about the same as in the previous forecast. Idaho real personal income is forecast to rise 2.4% in 1999, 2.7% in 2000, 2.6% in 2001, and 2.9% in 2002.

This is not surprising because the national outlook has not changed dramatically. After a scare last fall, things appear to have changed in the economy's favor. Although it appears the "Goldilocks economy" has escaped the bears, it is still not out of the woods. A couple of traps that could stall or reverse the economy's progress remain. The greatest danger is internal. The U.S. economy's recent success is in no small part due to the strong consumer confidence that has fueled spending. However, as the first few years after the 1990-91 recession have taught us, consumers can be fickle. One troublesome development in the extremely low savings rate in the U.S. over the past year. Should consumer confidence suddenly go south, it could lead the economy into a recession. A less serious problem, but a problem nonetheless, is Japan. While most of the other Asian countries that faced crises have seen their economies stabilize recently, Japan's economy remains a basket case. While steps have been taken to shore up the banking system of Asia's economic engine, only time will tell if these moves will successfully restart Japan's economy. The current forecast assumes that the "Goldilocks economy" will avoid most traps. Therefore, no recession is anticipated over the forecast period.

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 1999

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP (BILLIONS)										
Current \$	6,558	6,947	7,270	7,662	8,111	8,489	8,775	9,158	9,547	10,014
% Ch	5.0%	5.9%	4.6%	5.4%	5.9%	4.7%	3.4%	4.4%	4.2%	4.9%
1992 Chain-Weighted	6,390	6,611	6,762	6,995	7,270	7,531	7,661	7,837	7,999	8,200
% Ch	2.3%	3.5%	2.3%	3.4%	3.9%	3.6%	1.7%	2.3%	2.1%	2.5%
PERSONAL INCOME - CURR \$										
Idaho (Millions)	19,475	20,628	22,071	23,430	24,681	25,932	27,074	28,460	29,943	31,624
% Ch	10.0%	5.9%	7.0%	6.2%	5.3%	5.1%	4.4%	5.1%	5.2%	5.6%
Idaho Nonfarm (Millions)	18,339	19,979	21,371	22,647	23,956	25,250	26,351	27,698	29,160	30,821
% Ch	8.6%	8.9%	7.0%	6.0%	5.8%	5.4%	4.4%	5.1%	5.3%	5.7%
U.S. (Billions)	5,481	5,758	6,072	6,425	6,784	7,119	7,426	7,748	8,088	8,470
% Ch	4.3%	5.1%	5.5%	5.8%	5.6%	4.9%	4.3%	4.3%	4.4%	4.7%
PERSONAL INCOME - 1992 \$										
Idaho (Millions)	18,967	19,615	20,518	21,347	22,073	22,996	23,549	24,175	24,808	25,539
% Ch	7.2%	3.4%	4.6%	4.0%	3.4%	4.2%	2.4%	2.7%	2.6%	2.9%
Idaho Nonfarm (Millions)	17,861	18,998	19,867	20,634	21,425	22,392	22,920	23,528	24,160	24,890
% Ch	5.7%	6.4%	4.6%	3.9%	3.8%	4.5%	2.4%	2.7%	2.7%	3.0%
U.S. (Billions)	5,339	5,476	5,645	5,854	6,068	6,313	6,459	6,582	6,702	6,841
% Ch	1.6%	2.6%	3.1%	3.7%	3.6%	4.1%	2.3%	1.9%	1.8%	2.1%
HOUSING STARTS										
Idaho	11,456	12,768	9,361	9,216	8,868	9,738	9,392	9,745	9,845	10,028
% Ch	19.5%	11.5%	-26.7%	-1.6%	-3.8%	9.8%	-3.6%	3.8%	1.0%	1.9%
U.S. (Millions)	1.292	1.446	1.361	1.470	1.478	1.592	1.502	1.475	1.469	1.496
% Ch	7.5%	12.0%	-5.9%	8.0%	0.6%	7.7%	-5.6%	-1.8%	-0.4%	1.9%
TOTAL NONFARM EMPLOYMENT										
Idaho (Thousands)	436.7	461.2	477.4	492.6	508.8	523.6	532.2	543.7	555.4	569.0
% Ch	4.8%	5.6%	3.5%	3.2%	3.3%	2.9%	1.6%	2.2%	2.1%	2.5%
U.S. (Millions)	110.7	114.1	117.2	119.6	122.7	125.8	127.4	128.9	130.5	132.2
% Ch	1.9%	3.1%	2.7%	2.1%	2.6%	2.5%	1.3%	1.2%	1.2%	1.3%
FINANCIAL MARKETS										
Federal Funds Rate	3.0%	4.2%	5.8%	5.3%	5.5%	5.4%	4.4%	4.1%	4.5%	4.5%
Bank Prime Rate	6.0%	7.1%	8.8%	8.3%	8.4%	8.4%	7.4%	7.1%	7.5%	7.5%
Mort Rate, New Homes	7.2%	7.5%	7.9%	7.8%	7.7%	7.1%	6.7%	6.3%	6.5%	6.6%
INFLATION										
GDP Price Deflator	2.6%	2.4%	2.3%	1.9%	1.9%	1.0%	1.6%	2.0%	2.1%	2.3%
Personal Cons Deflator	2.7%	2.4%	2.3%	2.0%	1.9%	0.9%	2.0%	2.4%	2.5%	2.6%
Consumer Price Index	3.0%	2.6%	2.8%	2.9%	2.3%	1.6%	2.4%	2.7%	2.8%	2.8%

National Variables Forecast by Standard and Poor's DRI
Forecast Begins the THIRD Quarter of 1998

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 1999

	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	8,384	8,441	8,527	8,605	8,665	8,729	8,818	8,887	9,011	9,114	9,212	9,296
% Ch	6.4%	2.7%	4.1%	3.7%	2.9%	2.9%	4.2%	3.2%	5.7%	4.7%	4.4%	3.7%
1992 Chain-Weighted	7,465	7,499	7,559	7,601	7,619	7,639	7,681	7,705	7,768	7,819	7,865	7,897
% Ch	5.5%	1.8%	3.3%	2.2%	0.9%	1.1%	2.2%	1.3%	3.3%	2.7%	2.4%	1.6%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	25,469	25,847	26,054	26,358	26,626	26,906	27,231	27,533	27,917	28,306	28,641	28,975
% Ch	7.2%	6.1%	3.2%	4.7%	4.1%	4.3%	4.9%	4.5%	5.7%	5.7%	4.8%	4.8%
Idaho Nonfarm (Millions)	24,792	25,144	25,397	25,667	25,940	26,202	26,489	26,773	27,163	27,546	27,875	28,206
% Ch	8.2%	5.8%	4.1%	4.3%	4.3%	4.1%	4.5%	4.4%	6.0%	5.8%	4.9%	4.8%
U.S. (Billions)	7,004	7,082	7,156	7,235	7,316	7,391	7,466	7,530	7,624	7,709	7,790	7,867
% Ch	5.9%	4.5%	4.2%	4.5%	4.5%	4.2%	4.2%	3.4%	5.1%	4.5%	4.2%	4.0%
PERSONAL INCOME - 1992 \$												
Idaho (Millions)	22,680	22,965	23,093	23,247	23,354	23,468	23,624	23,750	23,932	24,121	24,257	24,391
% Ch	7.2%	5.1%	2.3%	2.7%	1.9%	2.0%	2.7%	2.1%	3.1%	3.2%	2.3%	2.2%
Idaho Nonfarm (Millions)	22,077	22,341	22,511	22,638	22,753	22,853	22,980	23,094	23,285	23,473	23,609	23,743
% Ch	8.2%	4.9%	3.1%	2.3%	2.1%	1.8%	2.2%	2.0%	3.4%	3.3%	2.3%	2.3%
U.S. (Billions)	6,237	6,293	6,342	6,381	6,417	6,447	6,478	6,495	6,536	6,570	6,598	6,623
% Ch	5.9%	3.6%	3.2%	2.5%	2.3%	1.8%	1.9%	1.1%	2.5%	2.1%	1.7%	1.5%
HOUSING STARTS												
Idaho	10,886	9,762	9,215	9,090	9,202	9,324	9,457	9,585	9,670	9,729	9,777	9,803
% Ch	68.4%	-35.3%	-20.6%	-5.3%	5.0%	5.4%	5.8%	5.5%	3.6%	2.4%	2.0%	1.1%
U.S. (Millions)	1,582	1,568	1,632	1,584	1,538	1,500	1,491	1,479	1,466	1,477	1,481	1,477
% Ch	14.1%	-3.5%	17.4%	-11.2%	-11.1%	-9.7%	-2.3%	-3.1%	-3.5%	2.9%	1.2%	-1.1%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	519.0	523.1	524.9	527.4	529.1	530.9	533.2	535.6	538.6	542.9	545.4	547.9
% Ch	3.7%	3.2%	1.4%	1.9%	1.3%	1.4%	1.7%	1.9%	2.3%	3.2%	1.8%	1.8%
U.S. (Millions)	124.8	125.5	126.1	126.6	126.9	127.2	127.5	127.8	128.2	128.7	129.2	129.6
% Ch	2.8%	2.3%	2.0%	1.6%	0.9%	1.0%	0.9%	0.9%	1.3%	1.6%	1.4%	1.3%
FINANCIAL MARKETS												
Federal Funds Rate	5.5%	5.5%	5.5%	5.1%	4.8%	4.5%	4.2%	4.0%	4.0%	4.0%	4.0%	4.2%
Bank Prime Rate	8.5%	8.5%	8.5%	8.1%	7.7%	7.5%	7.2%	7.0%	7.0%	7.0%	7.0%	7.2%
Mort Rate, New Homes	7.2%	7.2%	7.1%	7.1%	6.9%	6.7%	6.6%	6.5%	6.4%	6.3%	6.3%	6.3%
INFLATION												
GDP Price Deflator	0.9%	0.9%	0.8%	1.4%	1.9%	1.9%	1.9%	1.9%	2.3%	2.0%	2.0%	2.0%
Personal Cons Deflator	0.0%	0.9%	1.0%	2.0%	2.2%	2.3%	2.2%	2.3%	2.5%	2.4%	2.5%	2.5%
Consumer Price Index	0.5%	2.0%	1.8%	2.6%	2.6%	2.5%	2.5%	2.7%	2.8%	2.7%	2.7%	2.7%

National Variables Forecast by Standard and Poor's DRI
Forecast Begins the THIRD Quarter of 1998

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 1998 to the Fourth Quarter of 2002

After a scare last fall, things appear to have changed in the economy's favor. A review of several indicators shows there are positive signs aplenty. First, real GDP, the most closely watched measure of the nation's overall economic health, grew at a healthy 3.9% annual pace in the third quarter of 1998. It is thought to have advanced by 3.0% in the last quarter of that year. Second, employment has remained strong. The unemployment rate in the third quarter of last year was just 4.5%, which was still about one percentage point below full employment. The number of nonfarm jobs grew at a 2.0% annual rate during this same quarter. Third, the still-strong employment picture has kept consumer confidence high. Fourth, consumer confidence also got a boost from the strong stock market recovery. In fact, last summer's stock market correction proved to be one of history's most fleeting. The S&P 500 index regained its previous peak in just four months. In contrast, it took the market nearly two years to regain its peak after the October 1987 collapse. Fifth, the high level of consumer sentiment and respectable personal income growth has kept consumer spending afloat, and this has kept the economy humming. Sixth, for the first time in nearly 30 years the federal fiscal year ended with a surplus instead of a deficit.

Although it appears that the "Goldilocks economy" has escaped the bears, it is still not out of the woods. The U.S. economy's recent success is in no small part due to the strong consumer confidence that has fueled spending. Thus far, consumer confidence has shown incredible resilience against several attacks, such as last summer's stock market meltdown. However, as the first few years after the 1990-91 recession have taught us, consumers can be fickle. This is no minor detail considering consumer spending accounts for about two-thirds of the nation's economy. Should consumer confidence suddenly go south, it could lead the economy into a recession. (A confidence crisis resulting in a recession is explored in the *Alternative Forecasts* section of this publication.) A less serious problem, but a problem nonetheless, is Japan. While most of the other Asian countries that faced crises have seen their economies stabilize recently, Japan's economy remains a basket case. While steps have been taken to shore up the banking system of Asia's economic engine, only time will tell if these moves will successfully restart Japan's economy. Any meaningful Asian recovery must include Japan. The fear is that a continued Japanese malaise may cause other economic problems that will eventually spread to our shores.

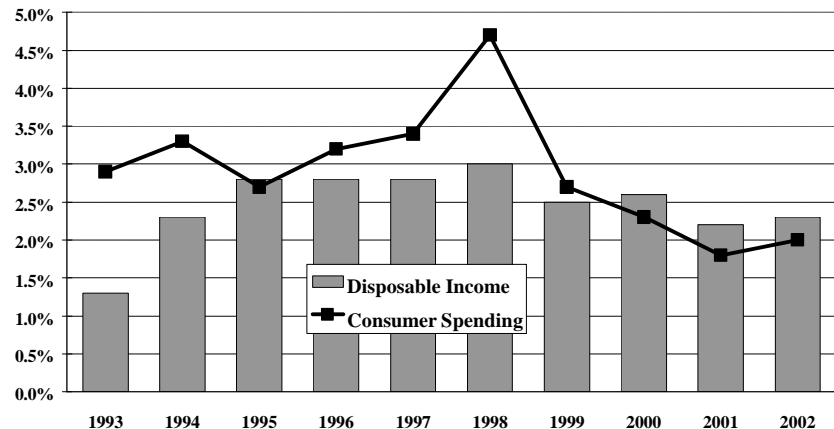
The current forecast assumes the "Goldilocks economy" will avoid most traps. Therefore, no recession is anticipated over the forecast period. That is not to say the next few years will be a breeze. The U.S. economy will have its closest brush with a recession in 1999. Continuing problems in Asia will find their way to the U.S. Asian countries will look to the U.S. in an effort to export their way out of their current economic slumps. While U.S. consumers will benefit from lower import prices, the wave of imports is expected to eventually cost some Americans their jobs. This is especially noticeable in 1999, when U.S. nonfarm growth drops to around one percent and the unemployment rate begins its gradual rise. This will cause consumer confidence to decline, but this is expected to be an orderly retreat. Over this period, consumer spending will slow to about the pace of real disposable income growth. While this is lower than in recent years, it is a sustainable pace that should keep the U.S. economy moving forward.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: Real consumer spending growth should slow over the forecast period. Indeed, some of this slowing has already taken place. During the first half of 1998, real consumer spending advanced at a 6.1% annual rate. Preliminary data for the third quarter show that this measure slowed

markedly to about 4.0%. Real consumer spending is forecast to slow further to 3.0% by the last quarter of 1998. Several of the factors contributing to this slowing will continue to limit future real consumer spending growth. First, consumer confidence has slipped. As measured by the University of Michigan's Index of Consumer Sentiment, October 1998 consumer confidence had retreated 13 points from its all-time high in February 1998. Confidence is expected to decline slowly over the forecast period as the unemployment rate inches upward. Indeed, in recent surveys consumers have remained generally upbeat about current conditions but have expressed more anxiety about a softening job market down the road. Second, despite the recent slide in consumer confidence, consumers have been willing to take on more debt. After remaining stable for two years, nonmortgage consumer credit measured relative to disposable income rose steadily last year, hitting a record 21.2% in September 1998. Near-record low interest rates no doubt induced consumers to take on more debt. However, it is unlikely it can remain at that level, especially given the outlook of falling consumer confidence. Third, consumers will need to rebuild dismally low savings. In 1998 the savings rate is expected to average under 0.5%. In September of that year the savings rate was negative. Part of the explanation for this weakness is the steady ascent of the stock market. With household net worth at an all-time high, consumers apparently feel the stock market is doing their saving for them, allowing them to spend more freely out of current income. However, households' net worth gains are expected to grow slower in the future, as stock market gains are projected slow from double-digit rates to single-digit rates. Given these factors, it appears that real consumer spending will grow about as fast as real disposable income. The good news is that income growth should be relatively healthy. Specifically, national real disposable income should rise 3.0% in 1998, 2.5% in 1999, 2.6% in 2000, 2.2% in 2001, and 2.3% in 2002. Real consumer spending should rise 4.7% in 1998, 2.7% in 1999, 2.3% in 2000, 1.8% in 2001, and 2.0% in 2002.

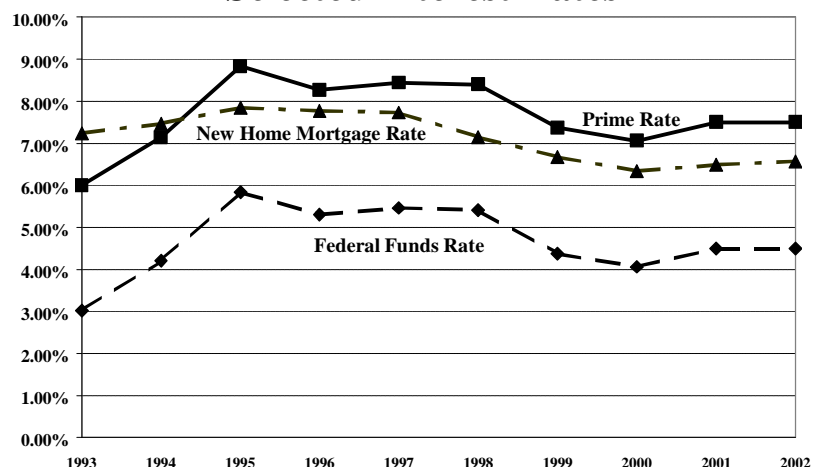
Real Spending & Real Income Growth



Source: Standard and Poor's DRI

Financial: The Federal Reserve loosened aggressively in the fall of 1998 in an effort to keep the current expansion moving ahead. Over the six-week period from the end of September 1998 to mid-November 1998, the nation's central bank dropped its bellwether federal funds rate target from 5.5% to 4.75%. The discount rate was dropped from 5.0% to 4.5%. More cuts are likely. With inflation stable, the Federal Reserve has been afforded more wiggle room to lower rates further

Selected Interest Rates



Source: Standard and Poor's DRI

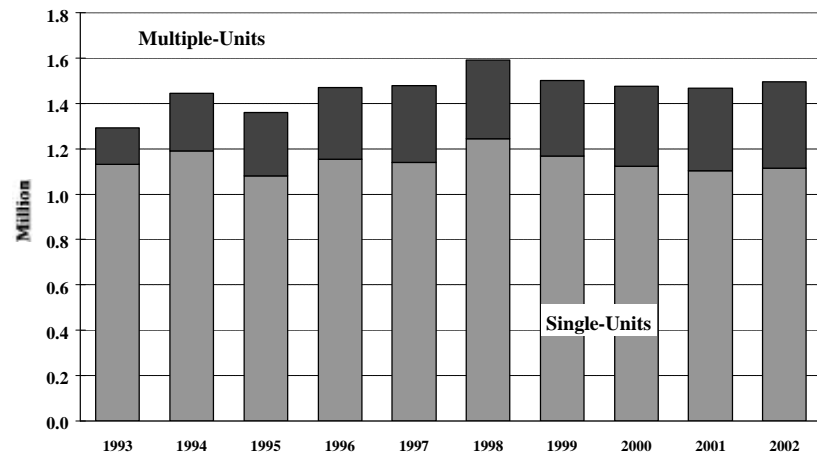
and help to insure the economy continues to grow. The stock market seems to be backing away from its fears of a recession, but growth is expected to be very low in early 1999. In this forecast it is assumed the Federal Reserve will ease further. However, this seems unlikely given the Federal Reserve did not raise rates in December 1998. It appears that the nation's central bank is content that the economy has dodged a downturn. Thus, it is more willing to take a wait-and-see policy. However, the economy will be vulnerable to a recession this year, so another round of loosening by the Federal Reserve in the near future is not entirely out of the question.

Housing: The nation's housing industry should remain one of the economy's strongest performers over the forecast period. Housing starts rose to 1.64 million units in the third quarter of 1998, its strongest quarterly showing since 1987. Housing sales were also strong. In the third quarter of 1998, new home sales (842,000) had their third strongest quarter ever. In addition, existing home sales in that same quarter were the second highest on record. This strong showing is primarily due to the strong job market and the increasing affordability of homes.

The strong job market has bolstered consumer confidence, which has led more Americans to take the plunge and purchase homes. Thanks to low interest rates and steady income growth, the affordability of owning a home has increased tremendously over the last two decades. To put this in perspective, in the early 1980s the after-tax cost of owning a home was roughly half of household disposable income. By 1998, this was slashed almost in half, so that housing cost was approximately a fourth of household disposable income. This has helped the home ownership rate rise to record levels. The U.S. Census Bureau reported that the third quarter 1998 home ownership rate was nearly 67.0%, its highest level since it started collecting this information in 1956. Home ownership rates had been stagnant for nearly two decades, at around 62-64% before 1994, when they started to rise. The falling mortgage interest rates that have been a boon to housing affordability have also benefited existing homeowners. In mid-October 1998, the Mortgage Bankers Association reported that more than 60% of the new loan applications were for refinancing, which was up from 40% a year earlier. This should lower consumers' home payments and free up cash that can be used for other things, such as consumer spending. The nation's housing industry also benefited from the overall strength of the economy and the stock market. As these cool from their recent robust paces, so will the housing industry. However, it should be stressed that the projected decline in housing starts will be gradual. Specifically, U.S. housing starts are expected to go from 1.59 million in 1998 to 1.50 million in 1999, 1.48 million in 2000, 1.47 million in 2001, and 1.50 million in 2002.

International: The Asian crisis dominated much of the economic news last year. This forecast notes there is some good news to report, but some serious problems still need to be addressed. First, the good news. The Asian economies are beginning to show signs of bottoming out. Exchange rates, with the exception of the Indonesian rupiah, have been stable since the spring of 1998. Stock markets in most of the countries affected by the currency crises are beginning to rebound. The flight of capital from Asia is

U.S. Housing Starts

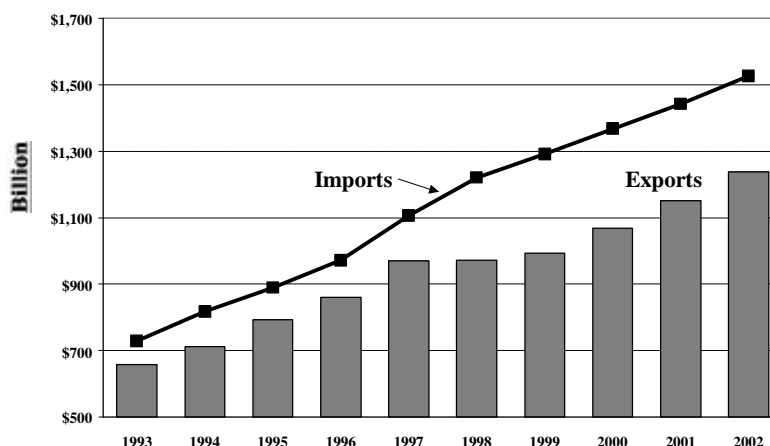


Source: Standard and Poor's DRI

at least moderating. Despite this good news, Japan remains in economic doldrums. Asia's largest economy is currently in its longest down cycle since the great depression. This engine of Asian economic growth is not just stalled, but in need of an overhaul. Until the Japanese banking system is fixed, it is not likely that it will experience a sustained recovery. Even Japan's most recent steps to get its economic house in order do not go far enough. The new bank-bailout bill makes a first step toward fixing the financial system, but it is too small to solve the

problem and still avoids tackling the disposal of bad loans and other assets. There is good reason for Japanese politicians to put off the economic day of reckoning as long as possible: the cure will be painful. The Japanese problem is far greater than the U.S. savings and loan crises. At the worst of the U.S. savings and loan problems, nonperforming loans were about 3.0% of U.S. GDP. In comparison, it has been estimated that nonperforming bank loans are 30.0% of Japanese GDP. Unfortunately, the story gets worse. On top of these loans are other nonperforming loans that could double this ratio. The Japanese recession is therefore likely to persist into 2000, and even longer if the Japanese Diet fails to make the needed reforms.

U.S. Imports and Exports



Source: Standard & Poor's DRI

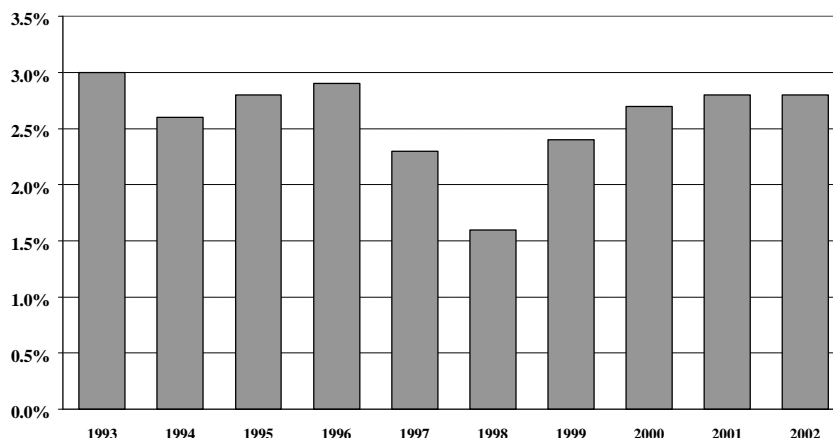
Government: The federal budget is expected to remain in surplus during the forecast period. The federal fiscal year ended with a \$70 billion surplus, the first since 1969. This was a pleasant surprise. President Clinton's original budget, which was submitted in February 1997, projected a \$10 billion deficit for that year. By the time fiscal year 1998 began, the projected deficit had been raised to nearly \$60 billion. The nearly \$130-billion swing between the start and end of the fiscal year resulted from a 5.5% underestimate of revenues and a 2.3% overestimate of outlays. Overall, federal receipts climbed 9.0% in fiscal year 1998, while federal outlays rose just 3.0%. The strong receipts were due in large part to the continued strength of the job and stock markets, which helped personal tax collections swell 12.4% in fiscal year 1998. The major surprise on the outlay side was Medicare spending, which increased just 1.5% after a decade of relentless 10% annual increases. It is assumed that much of the future federal budget surpluses will be used to pay down debt. However, some of the surpluses will be used to finance other projects. For example, this forecast assumes there will be some modest tax cuts before the 2000 election. It should also be pointed out that while the federal budget is projected to remain in surplus over the forecast period, there will be some slippage as economic growth slows and capital gain realizations shrink. However, the surplus does rebound in 2002. Specifically, the federal surplus (on a unified budget basis) is projected at \$63.3 billion in 1999, \$42.8 billion in 2000, \$31.0 billion in 2001, and \$63.7 billion in 2002.

Inflation: Inflation should remain mild despite an anticipated acceleration in employment costs. The Employment Cost Index for Compensation (wages, salaries, and benefits) has risen slowly in recent years, despite an ever-tightening labor market that dropped the unemployment rate below the full employment level. However, employment costs did start to heat up last year, growing 3.6% compared to 1997's 3.1%. Ordinarily this would cause consumer inflation to pick up speed. However, the opposite has occurred recently. In late 1998 it was estimated that the consumer price index had advanced just 1.6%

that year. In comparison, inflation in 1997 was significantly higher at 2.3%. The difference between the two can be traced to the energy and food components of the consumer price index. In 1997, energy prices rose 1.2%. Energy prices collapsed nearly 8.0% in 1998 due to soft world demand. For example, the price of West Texas Intermediate crude oil in October 1998 was just two-thirds of its price of the previous October. Food prices rose 2.6% in 1997, but just 2.1% in 1998. These changes in energy and food prices were able to push overall inflation

below 2.0% for the first time since 1986. It should be kept in mind that both energy and food prices are notoriously volatile, and they are not expected to remain low. In fact, the current forecast calls for these prices to ramp up slowly over the forecast period. Despite this, inflation should remain below 3.0%. One of the reasons for this is because while the U.S. labor market is tight, manufacturing capacity is relatively slack. Manufacturing utilization in the U.S. is about 80% of capacity, which is safely below the 83-85% that is associated with accelerating inflation. Of course, this only relates to U.S. manufacturing. Given the slowdown in Asia, there is even more slack capacity worldwide, especially for certain types of industries. Consumer price inflation, as measured by the consumer price index for all urban consumers, is projected to be 1.6% in 1998, 2.4% in 1999, 2.7% in 2000, 2.8% in 2001, and 2.8% in 2002.

Consumer Price Inflation

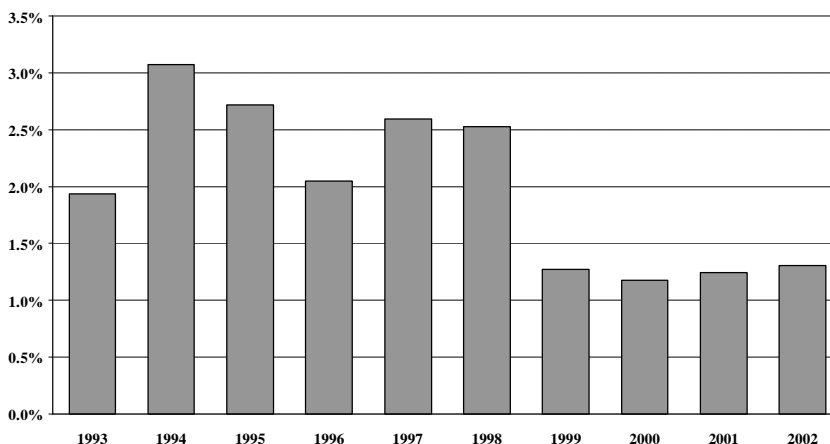


Source: Standard and Poor's DRI

Employment: The U.S. labor market is expected to loosen over the forecast period after posting another impressive showing in 1998. Last year, the number of jobs in the U.S. rose an impressive 2.5%, virtually matching 1997's strong gain. It also marked the fifth consecutive year that the number of jobs has expanded by more than 2.0%. This job expansion has caused the U.S. civilian unemployment rate to fall to levels that a few years ago were considered unattainable. For example, as recently as 1993 the civilian unemployment rate was

6.9%, which was well above the 5.3% economists considered full employment. As the economy shook off the effects of the 1990-91 recession, the once stubbornly high unemployment rate declined steadily, so that by 1996 the economy was essentially at full employment. However, this was not employment's zenith; labor markets continued to tighten after that year. In 1997, the unemployment rate actually fell one-half percentage point below the full employment threshold. In 1998, it was almost a full percentage

U.S. Nonfarm Employment Growth



Source: Standard and Poor's DRI

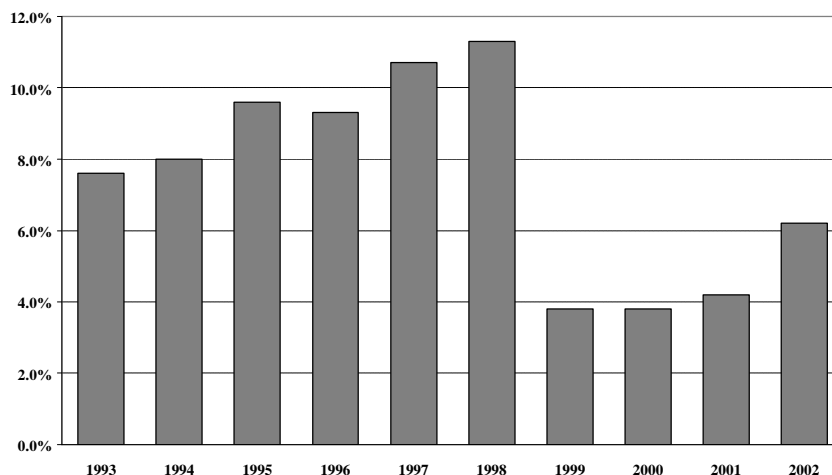
point below full employment. Of course, this is not expected to continue indefinitely. Over the next few years the U.S. economic growth is forecast to slow and so is employment. Nonfarm job growth in the U.S. is anticipated to slow to 1.3% in 1999, 1.2% in 2000, 1.2% in 2001, and 1.3% in 2002. The U.S. civilian unemployment rate is expected to rise gradually over this same period, going from a low of 4.5% in 1998 to 5.4% in 2002. Keep in mind that although labor markets are expected to slacken, the civilian unemployment rate should remain below the 5.5% full-employment rate. In other words, after several years of unusual tightness, labor markets should gradually return to more normal levels.

Production and Business

Investment: The slowing national economy will exact a toll on industrial production and business investment. After posting three-straight years of growth above 3.0% from 1996 through 1998, real GDP is forecast to advance by just 1.7% in 1999. Not surprisingly, U.S. industrial production should also experience a noticeable slowdown. The current forecast shows this measure's growth dropping from 1998's 3.1% to 1.3% in 1999. After 1999, industrial production should recover, advancing 2.8% in

2000, 2.5% in 2001, and 3.5% in 2002. After the current soft landing, manufacturing output will rebound with 3.0% growth in 2000 and average 3.2% gains from 2000 to 2003. That is weaker than the 4.5% average of the previous four years, but slightly higher than the average for the past 20 years. Although production growth will be respectable across the manufacturing sectors, operating rates will slip under 80% in the near term before stabilizing. The good news is that this is well below the inflationary threshold. The down side to this is that the lower operating rate will dampen the need for new investment. As a result, real nonresidential fixed investment, which had grown at double-digit rates in both 1997 and 1998, should slow to less than 4.0% growth in both 1999 and 2000. Real producers' durable equipment, which had expanded nearly 17.0% last year, should advance just 6.5% in 1999 and 4.7% in 2000. Real investment in nonresidential structures is hit even harder than producers' durable equipment spending. Real nonresidential structure investment is expected to have declined 1.6% in 1998 and should fall another 3.8% in 1999. The outlooks for both of these sectors should improve slowly after 1999. Overall, real nonresidential fixed investment is forecast to rise 11.3% in 1998, 3.8% in both 1999 and 2000, 4.2% in 2001, and 6.2% in 2002. It should be noted that the economy has made a smooth transition to lower inventory growth. Inventories accumulated at an unsustainable fast pace during the first part of 1998. This raised fears that a strong inventory correction would follow. While inventory growth did taper off, it did it in an orderly manner and the economy was spared the pain of a severe inventory correction.

Real Business Investment Growth



Source: Standard and Poor's DRI

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 1998 to the Fourth Quarter of 2002

The outlook for Idaho employment over the next few years has improved since the October 1998 *Idaho Economic Forecast* was published. The biggest change occurs in 1998. Previously it was anticipated that nonfarm employment in the Gem State would rise 2.2% to 520,182. In the current forecast, this same measure is expected to increase 2.9% to 523,580. All of this improvement reflects the stronger-than-expected job picture in the second and third quarters of 1998. New data show that employment was more than 4,000 higher than had been previously estimated in each of these quarters. The most notable surprise was construction, whose employment was up more than a 1,000 in each of these quarters. Services-related employment was up around 2,000 compared to the last forecast. Interestingly, Idaho real and nominal personal incomes are both down slightly during those same two quarters. This is due in large part to the impact of lower interest rates on the dividend, interest, and rent portion of personal income.

The higher employment numbers in 1998 will not have much of an impact beyond raising the starting point for the current forecast. As was mentioned above, the nonfarm employment growth rate in 1998 has been raised from 2.2% to 2.9%. However, employment expands at roughly the same rate in the remaining years of this forecast as it did in the previous one. Specifically, it is forecast to rise 1.6% in 1999, 2.2% in 2000, 2.1% in 2001, and 2.5% in 2002. In the previous forecast it was expected to rise 1.6% in 1999, 2.1% in 2000, 2.1% in 2001, and 2.6% in 2002. This is not surprising because the national outlook has not changed dramatically. Idaho personal income displays a similar pattern. Idaho nominal personal income rises 4.4% in 1999, 5.1% in 2000, 5.2% in 2001, and 5.6% in 2002. This about the same as in the previous forecast. Idaho real personal income is forecast to rise 2.4% this year, 2.7% next year, 2.6% in 2001, and 2.9% in 2002.

Although the baseline forecast does not include a recession, this is a possibility. If the national economy were to slip into a recession, the outlook for Idaho's economy would not be as bright. This is explored in detail in the *Alternative Forecasts* section of this report. To summarize, while growth rates for both Idaho nonfarm employment and personal income would vary, the levels of both would be lower than in the baseline case by 2002. It bears repeating again: no recession is anticipated over the forecast period. However, the expected slowing does increase the economy's exposure to a national downturn.

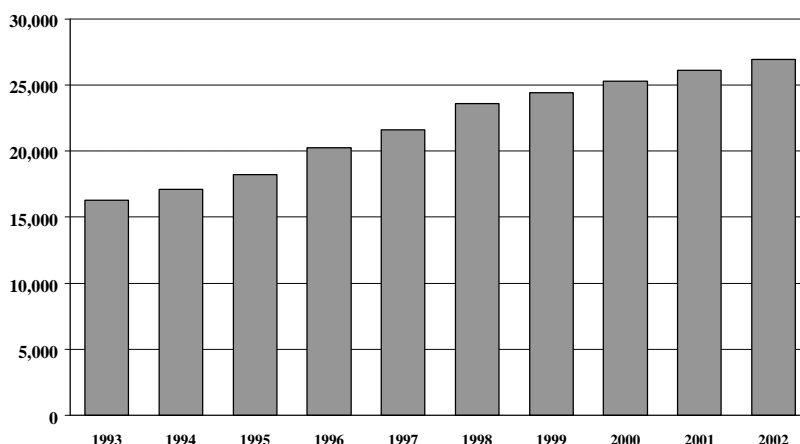
SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: Idaho's electrical and nonelectrical manufacturing sector should experience slow employment gains over the forecast period. This is a significant change from this decade's first seven years when the state's high-tech boom helped this sector's employment rise 8.0% annually. Most of these job gains came from two Boise firms, Micron Technology and Hewlett-Packard. Both benefited from products that were in high demand. Micron, one of the world's largest manufacturers of computer memory, prospered earlier this decade thanks to the strong demand for memory caused by burgeoning personal computer sales and the increased memory demands of both increasingly complex computer hardware and software systems. This bolstered Micron's profits and helped its employment expand rapidly in the early 1990s. Company-wide employment also increased due to the company's diversification into other areas, such as the manufacturing of complete personal computer systems. However, things changed abruptly in 1996. The price of memory chips collapsed that year as Asian competitors flooded the market with memory chips from newly operational plants. This slump still persists, but there are some signs that it has bottomed out. Recently, Micron was able to raise the prices for some of its products. Not only has the company survived the recent downturn, but it seems well positioned to take advantage when the market improves further. Micron completed its purchase of Texas

Instruments' memory business in the autumn of 1998. This move should have little short-term impact on Idaho employment. However, it could have a more subtle impact down the road. Micron acquired several semiconductor fabrication plants around the world as part of its Texas Instruments' deal. The company also has a mothballed plant in Utah. Thus, the company has significant excess capacity available when the memory chip market turns around. Unfortunately, none of this new capacity is in Idaho. Thus, when

chip prices rise, it can no longer be assumed that increased production and jobs will occur in Boise. They may take place in Utah or one of the other newly acquired plants instead. In October, Intel invested \$500 million in Micron. This investment was made to assist Micron's development of the next generation of memory products. This move helps Micron remain a cutting-edge player in the global market. The fortunes of Hewlett-Packard's Boise site also surged in the early 1990s thanks to favorable market conditions. The demand for this company's popular laser printers and the other products developed and manufactured in Boise helped its local employment swell over 5,000. Its employment has contracted since then. In the mid-1990s, the company refocused the Boise site's mission away from production toward research and development. As a result, the surface mount and hard drive manufacturing operations at the Boise plant were dropped. This took employment down to about 4,000. In a similar move, Hewlett-Packard recently sold the manufacturing assets of its formatter board manufacturing operations to Jabil Circuit, Inc. This lowered Hewlett-Packard's employment by another 300 jobs. However, this change has had a negligible impact on this sector's employment. This is because Jabil has hired most of Hewlett-Packard's formatter operation's staff and kept them in Boise. Idaho electrical and nonelectrical employment is forecast to rise 9.3% in 1998, 3.4% in 1999, 3.6% in 2000, 3.4% in 2001, and 3.1% in 2002.

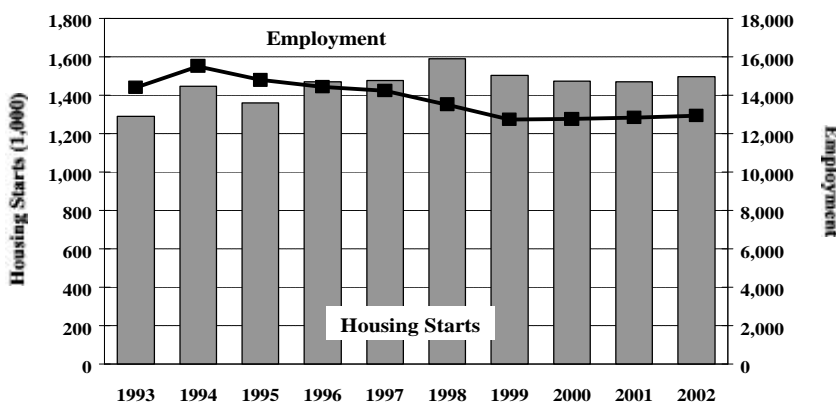
Idaho Electrical & Nonelectrical Employment



Lumber and Wood Products:

Idaho lumber and wood products employment is projected to decline over the forecast period, continuing a down cycle that began in 1995. From that year to 1997, the number of jobs in this sector has fallen from 14,795 to 14,241. Unfortunately, job losses continued through 1998. About 40 positions were lost when Boise Cascade closed its Horseshoe Bend Mill in the fall of 1998. But bad news was not limited to Southern Idaho. About 50 workers lost their jobs when the Gem State Lumber Company Mill was

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



Sources: Standard and Poor's DRI and DFM

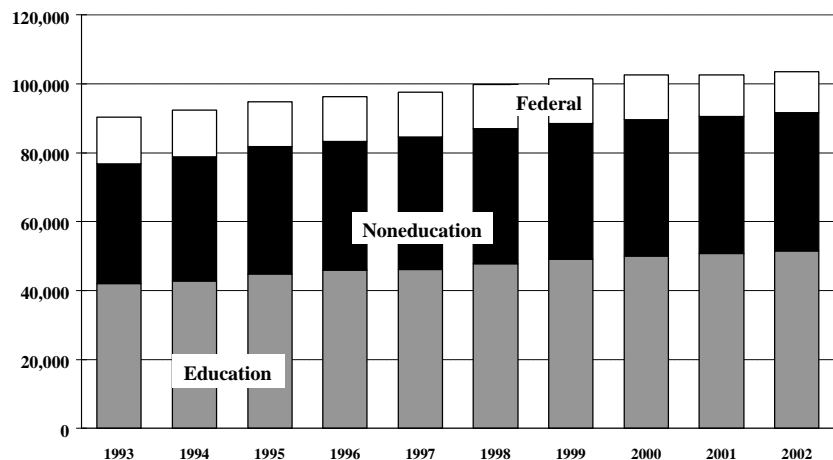
salvaged. Benewah County lost its second largest employer when Rayonier Incorporated decided not to rebuild its Plummer sawmill that burned last July. Nearly 125 employees worked at the sawmill before the fire. In November 1998, Crown Pacific announced that it will close its Colburn, Idaho sawmill in January 1999. Nearly 100 workers will be affected by the closure. Company officials cited low lumber prices and the sawmill's age as the reasons for the closure. In other news affecting the Panhandle's lumber and wood products sector, last fall Louisiana Pacific puts its Chilco and Sandpoint operations up for sale. Most of this industry's current woes can be traced to supply rather than demand. The strong dollar and weak Asian economies have dampened the demand for lumber and wood product exports. Thus, these exports have been redirected to the domestic market. This helps explain why lumber prices have been relatively soft despite the strong national housing market. In addition, the weak Canadian dollar has lowered the price of Canadian wood products, which has also contributed to the already swollen supply. These are short-term challenges. The major long-term challenge facing this industry is the dwindling supply of timber from public lands. Idaho has traditionally been dependent on timber from federal lands, but in recent years the supply of logs from these public lands has fallen. The uncertainty of public timber supply should limit future investment and employment in the Gem State's lumber and wood products sector. From 1998 to 2002, Idaho lumber and wood products employment is projected to fall from 13,519 to 12,951.

Federal, State, and Local

Governments: Idaho government employment growth should slow noticeably over the forecast period. Thanks to a booming economy and strong population growth, Idaho state and local employment advanced over 3.5% annually from 1990 to 1995. In comparison, national state and local employment averaged just 1.6% annual growth over the same period. However, Idaho will see this spread shrink over the forecast period. As overall employment and population growth slow over the next few years, so will state and local government employment.

In addition, future employment growth will be challenged by laws limiting Idaho local governments' budget growth. From 1998 to 2002, Idaho state and local employment is expected to rise an average of 1.3% per year. This is slightly slower than its national counterpart that is forecast to increase about 1.9% per year. Education-related employment should grow slightly faster than the Idaho government average. Specifically, Idaho education-related government employment is projected to expand 1.9% annually from 1998 to 2002, from nearly 48,000 to just over 51,600. On the other hand, Idaho noneducation government employment should rise just 0.6% per year. As a result of ongoing federal austerity measures, Idaho federal government employment is anticipated to decline over the next few years, going from 12,954 in 1998 to 11,966 in 2002, a drop of about 2.0% per year. It will, however, get a one-quarter respite in the beginning of 2000 with the hiring of temporary workers for Census 2000.

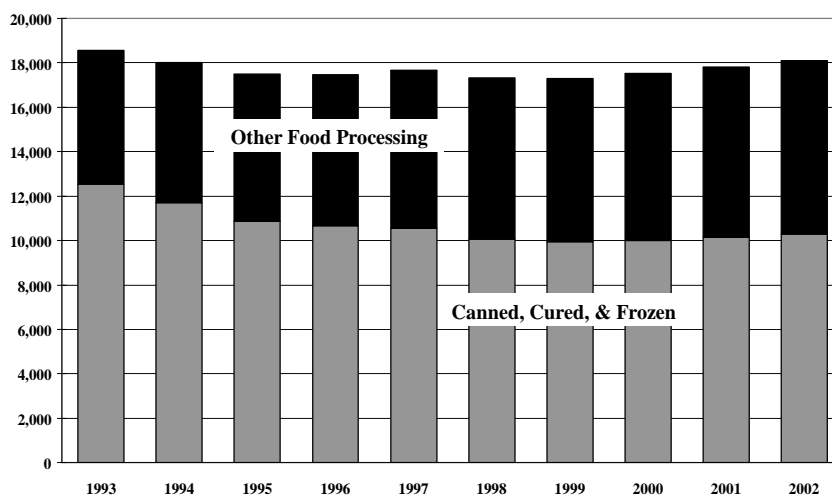
Idaho Government Employment



Food Processing: Idaho's largest nondurable manufacturing sector suffered a blow last fall when H.J. Heinz Company announced that it will be consolidating Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into a new Pittsburgh-based entity called Heinz Frozen Food Company. The move will cost approximately 400 jobs in Idaho. Nearly 250 jobs at Ore-Ida's Boise

headquarters will be lost when the move is completed this July. All current Boise employees will be given the opportunity to apply for jobs in Pittsburgh. This decline follows the loss of about 150 positions that resulted from the sale of Ore-Ida's food service business to McCain Foods of Canada. After this year's changes, only about 85 of the company's employees will remain in Boise. In addition to this drop, nearly 150 workers at the Weight Watchers Pocatello plant will lose their jobs. The Gem State's food processing employment is forecast to decline 1.8% in 1998, fall another 0.2% in 1999, then rise 1.2% in 2000, 1.7% in 2001, and 1.6% in 2002.

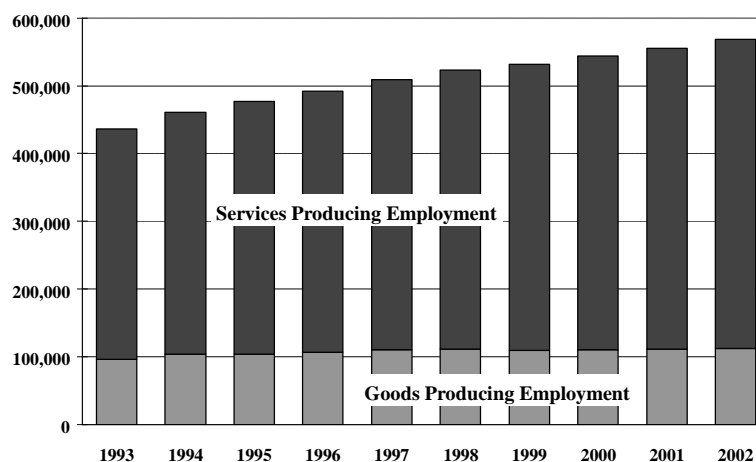
Idaho Food Processing Employment



Services-Producing Industries:

The services-producing sector is the state's largest and most diverse employment category. There were nearly 400,000 service-producing jobs in 1997, which was nearly eight of every ten jobs in Idaho. This category includes finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Not surprisingly, this sector has been the major engine of growth over the last few years. Over the ten years from 1987 to 1997 Idaho has gained 135,000 services-producing jobs. This represents more than three-

Idaho Nonfarm Employment



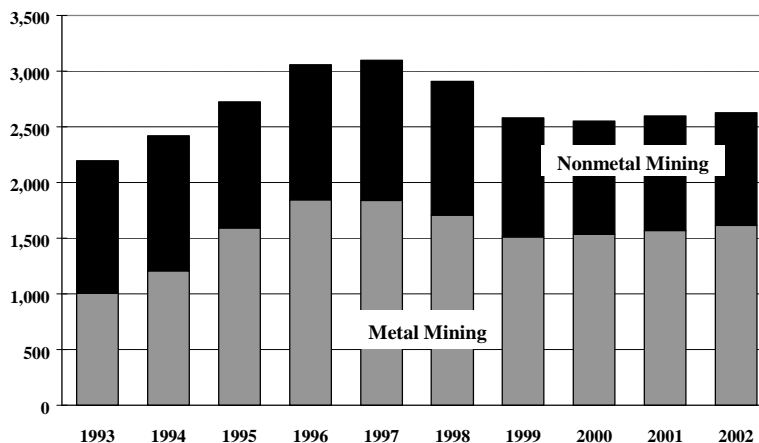
quarters of the state's total nonfarm job increase during that same period. This growth is attributable to the positive influences of favorable cyclical and structural factors. Structural changes include the movement of certain "back office" operations into the state. Two examples of this are the Sears Regional Credit Center and the MCI Call Center, both are based in Boise. The services-producing sector has also been bolstered by ongoing structural changes. One of the most significant trends has been the increasing number of women in the labor force. This has raised the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households, due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. All of these factors will continue to play a role in the future of the trade and services sectors. Other demographic trends also figure in this sector's future. Most notably, as this country's baby-boom generation ages, it will strain the supply of existing services for the aged. In addition, this generation of older persons will probably be healthier than previous

generations and will demand more recreational/leisure services. Idaho services-producing employment is forecast to rise 3.5% in 1998, 2.5% in 1999, 2.4% in 2000, 2.5% in 2001, and 2.8% in 2002.

Mining: The expected slowing of the national economy will also take a toll on the state's mining sector. After rising four straight years, Idaho mining employment peaked in 1997 at just under 3,100. Despite a deflationary trend in many metal prices, silver was actually about \$1/troy ounce higher in the first half of 1998 compared to 1997's average price. Unfortunately, other important metal prices did not fare as well. Zinc, lead, and molybdenum prices fell below last year's average. Lower prices contributed to the decision to cut production

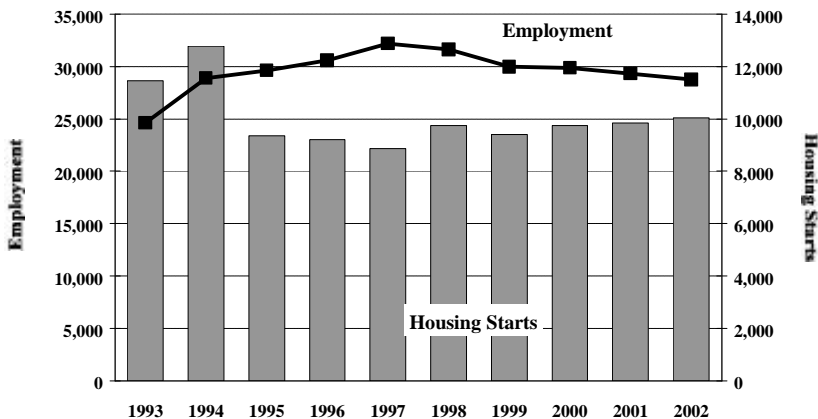
and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. Both metal and nonmetal mining employment will slide this year. Metal mining employment will take the biggest hit. Its employment is forecast to drop from about 1,840 in 1997 to 1,619 in 2002. This pattern continues the recent trend in which no metal mining employment zenith has matched the previous peak. For example, metal mining employment peaked at 2,800 in 1984. Its next peak was 2,754 in 1990. But 1997's peak was just 1,847, about 900 lower than 1990's high. Metal mining employment in Idaho is expected to go from 1,710 in 1998 to 1,619 in 2002. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Agricultural woes will probably result in a reduction of fertilizer production and shrinking acreage. This will affect companies in Southeast Idaho where both phosphorus ore is mined and fertilizer is manufactured. As a result of these negative factors, Idaho nonmetal mining employment is projected to decline from 1,256 in 1997 to 1,009 in 2002. Overall, total mining employment in the Gem State should drop from 2,908 in 1998 to 2,628 in 2002.

Idaho Mining Employment



Construction: Construction employment is expected to slowly decline over the forecast period. This is a marked departure from the earlier part of this decade when this sector enjoyed robust job gains. Hard times fell on the construction sector during the 1980s, and it hit a low in 1987 when employment dropped below 14,000. In that same year there were only 3,400 housing starts in the entire state. However, in the late 1980s the combination of a strong economy, strong population growth, and increased public and

Idaho Construction Employment and Housing Starts



private building returned construction employment on a growth path. For example, from its 1988 nadir to its peak in 1994, the number of housing starts more than tripled from 3,334 units to 12,768 units. Over this same period the number of Idaho construction jobs climbed from 14,205 to 28,983, which translates to an incredible 12.6% average annual pace. The number of housing starts dropped to a still-high 9,300 units in 1995 and declined slightly in both 1996 and 1997. However, thanks to strength in nonresidential building, construction employment managed to still post modest gains in these three years. The current forecast calls for Idaho housing starts to eventually work its way back up to about 10,000 by the year 2000. After peaking at just over 32,000 in 1997, Idaho construction employment is expected decline to about 28,800 jobs by 2002.

ALTERNATIVE FORECASTS

DRI has assigned a 55% probability of occurrence to its November 1998 baseline forecast of the U.S. economy. The major features of this forecast include:

- real GDP growth is 3.6% this year, dips to 1.7% next year, then averages about 2.3% thereafter;
- U.S. nonfarm employment rises 2.5% in 1998 then grows between 1.2% and 1.3% through 2002;
- the U.S. civilian unemployment rate rises gradually from 4.5% this year to 5.4% in 2002;
- consumer confidence peaks in 1998, then tapers off over the forecast period;
- consumer inflation accelerates from 1998's 1.6%, but remains under 3.0% through 2002;
- the federal budget posts surpluses in each year of the forecast;
- and the U.S. merchandise trade deficit widens.

While the baseline scenario represents the most likely outcome for the national economy over the next few years, the uncertainties surrounding several key variables mean that other outcomes are also possible. To account for this, DRI prepares alternative forecasts based on different assumptions regarding these key variables. Two of these alternative forecasts, along with their impacts on the Idaho economy, are discussed below.

While it is believed the economy will not suffer a recession over the forecast period, it should be noted that the risk of a recession is high. A review of the probabilities of occurrence for each forecast scenario shows this. The baseline does not include a recession and its probability of occurrence is 55%. However, both of the alternative scenarios do contain recessions and their combined probability of occurrence is 45%. This implies the chances of the economy suffering a recession are just about even with the economy escaping a recession.

PESSIMISTIC SCENARIO

This scenario has been assigned a 30% probability of occurrence. In this case, the Asian contagion spreads further and is more harmful than in the baseline case. An unexpected devaluation of the Chinese currency in early 1999 starts a domino effect that is eventually felt in the U.S. The mechanics of this chain of events is as follows: the Chinese monetary devaluation sets off another round of currency devaluations in Asia. As a result, regional stock markets turn down and recessions deepen in all major Asian countries, including China. Stiff competition from Asian producers, aided by their cheaper currencies, drags Latin America into recession. The Latin American currencies then collapse in response to the Asian devaluations. These international troubles cut U.S. exports, which results in the layoffs of American workers.

As a result of these layoffs, U.S. consumer confidence falls and this takes a toll on consumer spending. This, along with the ongoing slide in foreign demand, pushes the U.S. economy into recession in the first quarter of 1999. The sale of large-ticket items is especially hard hit during this downturn. For example, despite the lowest mortgage rates since the mid-1960s, the housing market falters. The economy is not left alone to recover from its wounds, however. It is assumed the Federal Reserve lowers interest rates quickly

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 1999

	BASELINE				PESSIMISTIC				LATE RECESSION			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
GDP (BILLIONS)												
Current \$	8,775	9,158	9,547	10,014	8,621	8,859	9,215	9,670	8,866	9,059	9,455	9,984
% Ch	3.4%	4.4%	4.2%	4.9%	1.6%	2.8%	4.0%	4.9%	4.4%	2.2%	4.4%	5.6%
1992 Chain-Weighted	7,661	7,837	7,999	8,200	7,527	7,631	7,832	8,090	7,717	7,668	7,819	8,066
% Ch	1.7%	2.3%	2.1%	2.5%	0.0%	1.4%	2.6%	3.3%	2.5%	-0.6%	2.0%	3.2%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	27,074	28,460	29,943	31,624	26,889	28,042	29,366	30,877	27,240	28,650	30,068	31,863
% Ch	4.4%	5.1%	5.2%	5.6%	3.7%	4.3%	4.7%	5.1%	5.0%	5.2%	4.9%	6.0%
U.S. (Billions)	7,426	7,748	8,088	8,470	7,349	7,550	7,831	8,187	7,483	7,791	8,068	8,475
% Ch	4.3%	4.3%	4.4%	4.7%	3.2%	2.7%	3.7%	4.6%	5.1%	4.1%	3.6%	5.1%
PERSONAL INCOME - 1992 \$												
Idaho (Millions)	23,549	24,175	24,808	25,539	23,467	24,070	24,709	25,496	23,587	24,002	24,525	25,325
% Ch	2.4%	2.7%	2.6%	2.9%	2.1%	2.6%	2.7%	3.2%	2.6%	1.8%	2.2%	3.3%
U.S. (Billions)	6,459	6,582	6,702	6,841	6,410	6,474	6,582	6,754	6,480	6,527	6,581	6,737
% Ch	2.3%	1.9%	1.8%	2.1%	1.5%	1.0%	1.7%	2.6%	2.6%	0.7%	0.8%	2.4%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	532.2	543.7	555.4	569.0	529.7	538.7	551.8	566.7	533.2	540.7	548.7	566.0
% Ch	1.6%	2.2%	2.1%	2.5%	1.2%	1.7%	2.4%	2.7%	1.8%	1.4%	1.5%	3.2%
U.S. (Millions)	127.4	128.9	130.5	132.2	126.3	126.3	127.9	130.3	127.9	127.9	127.9	130.2
% Ch	1.3%	1.2%	1.2%	1.3%	0.4%	0.0%	1.3%	1.9%	1.7%	0.0%	0.0%	1.8%
GOODS PRODUCING SECTOR												
Idaho (Thousands)	109.1	110.4	111.4	112.5	107.3	107.2	109.4	111.0	109.8	108.3	109.1	112.8
% Ch	-1.5%	1.2%	0.9%	0.9%	-3.2%	-0.1%	2.0%	1.5%	-0.9%	-1.4%	0.8%	3.4%
U.S. (Millions)	24.5	24.1	23.9	23.9	24.1	23.0	22.9	23.3	24.7	23.8	23.1	23.4
% Ch	-2.9%	-1.7%	-0.8%	0.0%	-4.5%	-4.4%	-0.5%	1.5%	-2.1%	-3.7%	-2.7%	1.4%
SERVICE PRODUCING SECTOR												
Idaho (Thousands)	423.1	433.3	443.9	456.6	422.4	431.5	442.4	455.7	423.4	432.4	439.6	453.2
% Ch	2.5%	2.4%	2.5%	2.8%	2.3%	2.1%	2.5%	3.0%	2.6%	2.1%	1.6%	3.1%
U.S. (Millions)	102.9	104.9	106.6	108.3	102.2	103.2	104.9	107.0	103.2	104.1	104.8	106.7
% Ch	2.3%	1.9%	1.7%	1.6%	1.6%	1.0%	1.7%	2.0%	2.6%	0.9%	0.7%	1.9%
FINANCIAL MARKETS												
Federal Funds Rate	4.4%	4.1%	4.5%	4.5%	3.9%	3.5%	3.9%	4.5%	4.9%	5.4%	4.4%	3.6%
Bank Prime Rate	7.4%	7.1%	7.5%	7.5%	6.9%	6.5%	6.8%	7.5%	7.7%	8.4%	7.4%	6.6%
Mort Rate, New Homes	6.7%	6.3%	6.5%	6.6%	6.6%	6.3%	6.5%	6.9%	6.8%	7.4%	7.1%	6.6%
INFLATION												
GDP Price Deflator	1.6%	2.0%	2.1%	2.3%	1.5%	1.3%	1.4%	1.6%	1.9%	2.8%	2.4%	2.4%
Personal Cons Deflator	2.0%	2.4%	2.5%	2.6%	1.6%	1.7%	2.0%	1.9%	2.4%	3.4%	2.7%	2.6%
Consumer Price Index	2.4%	2.7%	2.8%	2.8%	2.1%	1.9%	2.1%	2.1%	2.9%	3.7%	2.8%	2.7%

Forecast Begins the **THIRD** Quarter of 1998

and aggressively. The recession is relatively mild thanks to the fundamental strength of the U.S. economy, the lack of domestic inflation, and the timely Federal Reserve action. By 2000, the economy is on the mend. Unfortunately, it takes the federal budget longer to recover. The recession cuts tax revenues, sending the federal budget into red ink in fiscal years 2000, 2001, and 2002.

In this scenario Idaho employment growth is weaker in the first two years compared to the baseline forecast. However, it does pick up speed in the latter half of the forecast period as the national economy rebounds from its downturn. Despite its late surge, Idaho nonfarm employment never fully closes the gap between this scenario and the baseline. In 2002, Idaho nonfarm employment is about 2,000 lower than in the baseline case. Like employment, Idaho personal income also grows slower in the first half of the forecast. In 2002, Idaho nominal personal income is \$750 million lower than in the baseline and Idaho real personal income is down about \$40 million.

LATE-RECESSION SCENARIO

The *Late-Recession Scenario* has been assigned a 15% probability of occurrence. In this scenario, the U.S. economy is strong, but not booming, through 1999. With confidence relatively high and wages rising, consumers continue to spend. The strong domestic demand offsets the slowdown in exports to Asia, helping the unemployment rate remain low. Desiring to ward off any near-term U.S. recession while not doing anything to further damage those foreign economies in crises, the Federal Reserve cuts the federal funds rate to 4.5% in the spring of 1999. Eventually, this strong growth leads to higher inflation. Oil prices increase as producers successfully cut back production. Further, the strong consumption prompts greater investment in both equipment and structures, creating bottlenecks in the capital goods industry and putting additional upward pressure on prices. By late-spring 1999, it is clear that higher wage and fringe benefit increases are flowing through to consumer prices.

The Federal Reserve attempts to stem inflation by raising the federal funds rate beginning in the summer of 1999. As inflation accelerates, consumer confidence plunges and bond yields rise, which causes the stock market to drop. The decline in consumer confidence drags down consumer spending and new home construction. With consumers retrenching, investments in both inventories and new facilities collapse. The economy slides into a three-quarter recession in 2000, producing a 2.0% peak-to-trough decline in real GDP. By the end of the recession, the stock market has retreated about 20% from its mid-1999 peak.

Idaho nonfarm employment is initially stronger in this scenario, but this advantage proves to be small and fleeting. In 1999, Idaho nonfarm employment is about 1,000 higher compared to the baseline. However, the slowing U.S. economy takes its toll on Idaho employment in the remaining years, and by 2002 Idaho nonfarm employment is actually 3,000 lower than in the baseline case. Interestingly, Idaho nominal personal income is higher in each year than in the baseline forecast. However, most of this gain is driven by higher inflation. After adjusting for inflation, Idaho personal income in this scenario is actually lower in the last three years of the forecast compared to the baseline case.